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2 DEC 1976

MEMORANDUM FOR: Chief, Budget Staff, DDA

FROM : James H. McDonald
Director of Logistics

SUBJECT : FY 1978 Congressional Budget Submission

REFERENCE : Mult adsee memo dtd 12 Nov 76 fm AACompt/R,
same subject

1. The response to requirement 2.III.C.1. of the referent was forwarded by separate memorandum dated 2 December 1976.

2. Attached is a proposed response to the information requested by the House Appropriations Surveys and Investigations (S&I) Staff as delineated in the section Inventories of the attachment to the referent.

3. It should be noted that the attached represents a partial response to the supporting narrative requested. Included in the S&I Staff request was a requirement for explanatory narratives (" . . . with special emphasis on contingency stocks . . . ") " . . . historical usage, long-

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DDO, and the Office of Logistics has not accomplished. The Office of Logistics has, however, provided a separate memorandum to the Office of the Comptroller dated 16 Nov 1976 with attachments summarizing contingency stock levels and objectives.

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4. Please call me or [REDACTED] if further information is required.

25X1A

for James H. McDonald

Att

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ATTACHMENT

3
1

Personal Property Inventories

25X1A 1. Attached are two tabulations depicting previous year summaries of Agency personal property. The first attachment is a Personal Property Schedule compiled by the Office of Finance (OF) and derived from property accountability ledgers. (The schedule for FY 1976 shows an apparent inversion of figures between domestic and overseas installations for property-in-use, Type II accounts; this apparent entry error has been identified to OF.) Attachment 2 is a tabulation of the [REDACTED] DD/O property-in-use data as compared to total Agency property-in-use. The Office of Logistics (OL) is not the total data source for either attachment (although a major input source for Attachment 1); the attachments are provided to show trends and to provide clarification for the following narrative explaining the Agency's materiel management system.

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2. The Agency's materiel management system is considered unique and reflective of the Agency's special characteristics, i.e., small size but breadth of activity, reliance upon larger agencies for materiel support and cover, and decentralization of activities for security purposes. First, the scope of the Agency's supply activities must be put into perspective. Although Agency functions run the gamut from covert action

25X1C to library operation and include such diverse technical functions as worldwide communications, systems development, printing plants, [REDACTED] and photo analysis, the Agency maintains only 16,000 line items in its stock inventory and manages an additional 14,000 unstocked items. By comparison, the Defense Supply Agency (DSA) and the General Services Administration (GSA) list stock numbers for approximately 4.6 million line items and manage some 2 million of this total.

3. The Agency's stock inventory is primarily comprised of two categories of materiel, "Agency peculiar" items (generally hybrid items not used by other agencies and representing some 2,500 line items) and high use or contingency items held in Agency warehouses because GSA/DSA leadtimes are not responsive to Agency requirements. The Agency materiel management system can be described as primarily reliant on other federal supply systems and or direct procurement with a modest depot system maintained for a quick reaction, short term reserve capability and for inventory control of materiel peculiar to the Agency's requirements.

4. Agency materiel is funded in, again, an unusual manner reflecting the Agency's unique characteristics. Based upon operating components' budgeted requirements for materiel, the Office of the Comptroller issues each component an authority to requisition materiel from OL up to a fixed dollar total; in essence, a blank checkbook against a fixed, budgeted dollar deposit held within O/Compt. This "checkbook" is called Property Requisitioning Authority (PRA). O/Compt then issues to OL the

actual dollars (called the Materiel Procurement Allotment or MPA) to either replenish stock or fund direct procurements as "bought" by the operating components with their checking accounts. This system, while having some weaknesses, has proven very responsive to the wide variety of requirements necessitated by the diverse functions of the various components. The system, when coupled with OL's established relationships with the major supplier agencies plus direct procurement, provides a combination of materiel flexibility and budgetary control. What this system does not do is permit a centralized materiel management function to anticipate requirements and vary inventory accordingly. Recognizing this inventory/response problem and recognizing that the Agency inventory basically consists of "peculiar" items and heavy use, long leadtime, common items, the concept of "cognizant materiel" was introduced.

5. A limited number of specialized, technical components have been authorized to use their PRA accounts to establish inventories of special or technical items peculiar to their requirements, i.e., materiel within that component's technical cognizance. Generally, each component has a decentralized team of OL careerists who establish inventory levels while centrally located OL depot personnel perform receiving, warehousing, and shipping functions for these special categories of materiel. Each cognizant component can only adjust its special inventory levels through budgeted, cognizant PRA. OL's balancing, cognizant

MPA is specifically identified against each cognizant component and is restricted to obligation on behalf of that component. It can be seen then that, while OL is knowledgeable of cognizant stock levels, the levels can only be adjusted with the approval of the cognizant component and with supplemental funding (MPA) from the O/Compt.

6. A similar situation exists for the general inventory. Therefore, if OL perceives a major stock drawdown trend in general stocks, it must petition the O/Compt for excess funds beyond the MPA issued to balance PRA. Conversely, should an overstockage situation develop or property requisitions fall off sharply, OL would identify a surplus in MPA funds. In fact, as Attachment 1 shows, neither condition has occurred/^{in any magnitude}for at least the last 5 years. In fact, stock levels have gradually declined to keep pace with the drawdown of Agency major supply activities overseas. Temporary bulges are seen in 1973 and 1975, reflecting transfer of stocks from the closure of one overseas and one domestic depot in those periods. The overall trend, however, is stable and is anticipated to remain so for the programmable future.

7. Other than stores at depots, the only other significant class of Agency personal property is "property-in-use." This represents all the accountable materiel (over \$200 per item) necessary to carry out Agency functions worldwide. Included are communications equipment, vehicles, furniture, photo production and analysis equipment, and all the diverse materiel

necessary to meet the broad, daily functions of the Agency. This class of materiel represents no reserve or resource applicable to new intelligence or covert action activities-- not only is it spread throughout the world, its diversion, if possible, to new activities would result in the immediate cessation of the ongoing activity being supported.

8. Personal property becomes property-in-use when issued by OL to any component or office. Accountability for the item transfers to the receiving component upon receipt; that is, OL turns over control and reporting of the item to the operating element. As noted in paragraph 1, OF is the Agency repository for data on property-in-use.

9. Attachment 2 is provided for clarification of the [REDACTED] 25X1A
property-in-use account. As can be seen, prior to FY 1976 the
volume accounted for an insignificant 1 percent or less of the 25X1C
Agency's property-in-use. The current FY 1976 increase is
attributable to the recovery of high value equipment [REDACTED] 25X1C

[REDACTED]

25X1A agencies and the [REDACTED] account will return to close to its previous
levels. When consideration is given to the fact that [REDACTED] 25X1A
property-in-use supports all of its ongoing activities including
research and development and training, it is apparent that no
significant resource is available to support new activities from
this source.

10. The Agency stock levels and stock objectives for quick reaction to covert activity requirements ("contingency stocks") have been detailed in 16 November 1976 correspondence to the S&I Staff (via O/Compt) and need not be repeated herein.

11. In summary, Agency personal property inventory histories are shown in Attachment 1; the trends shown therein are expected to remain stable. It is considered demonstrated that property-in-use accounts have also remained stable and do not represent a resource for new activities. Further, it is hoped that evidence has been presented that the Agency personal property inventory is both modest and stable and that it represents no resource to support major activities without supplemental funding from knowledgeable, legislative sources.

Att. 1

Next 4 Page(s) In Document Exempt

Att. 2

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

Director of Logistics
25X1A 2C02 [REDACTED]

EXTENSION

NO.

OL 6 5913

DATE

2 DEC 1976

25X1A

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. C/Budget Staff/DDA
7D02 Headquarters

2.

3.

*Comptroller
C/Admin Group*

4.

5.

6.

7.

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12.

13.

14.

15.

Bill:

I am forwarding the attached in draft in order to get as close to the deadline (which I've already missed) as possible. We will be reviewing this document and possibly send an amendment forward; however, it should not differ significantly from the attached.

25X1A [REDACTED]

Executive Officer, OL

Att

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